

## Message Text

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PAGE 01 CALGAR 00255 042146Z

ACTION EB-08

INFO OCT-01 EUR-12 ISO-00 SOE-02 AID-05 CEA-01 CIAE-00

COME-00 DODE-00 DOE-15 H-02 INR-10 INT-05 L-03

NSAE-00 NSC-05 OMB-01 PM-05 ICA-20 OES-07 SP-02

SS-15 STR-07 TRSE-00 ACDA-12 /138 W

-----021244 050232Z /65

R 042000Z MAY 78

FM AMCONSUL CALGARY

TO SECSTATE WASHDC 2403

INFO AMEMBASSY OTTAWA

UNCLAS CALGARY 0255

E.O. 11652:NA

TAGS: ENRG, CA

SUBJECT: TRANSCANADA SEEKS INDUSTRY AGREEMENT ON GAS  
PRORATIONING

1. FACED WITH REDUCED MARKET GROWTH, THE LOSS OF  
INDUSTRIAL CUSTOMERS IN ONTARIO, AND PRODUCER ACTIONS TO  
MAINTAIN OR INCREASE THEIR DELIVERABILITY CAPABILITY,  
TRANSCANADA PIPELINES LTD. (TCPL) WILL BE FORCED TO

PURCHASE AS MUCH AS 200 BCF OF NATURAL GAS ANNUALLY ON  
"TAKE OR PAY" BASIS FOR NEXT ONE-TWO YEAR PERIOD. IN  
CONSEQUENCE, TRANSCANADA HAS ASKED ITS SUPPLIERS TO ACCEPT  
"VOLUNTARY" PRORATIONING SCHEME WHICH WOULD PERMIT EQUITABLE  
DISTRIBUTION OF REDUCTIONS IN GAS DELIVERIES AMONG  
PRODUCERS DURING CONTRACT YEARS ENDING OCTOBER 31, 1978  
AND OCTOBER 31, 1979. (WE UNDERSTAND THAT TCPL IS ASKING  
PRODUCERS TO EXTEND TERM OF "TAKE OR PAY" CONTRACT  
PROVISION FROM TWO TO SIX YEARS).

2. TRANSCANADA HAS WARNED ITS SUPPLIERS THAT IT IS  
PREPARED TO EXERCISE ITS CONTRACTUAL RIGHTS TO CUT BACK  
DELIVERIES; HOWEVER, IT WANTS TO AVOID TAKING THIS ACTION  
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PAGE 02 CALGAR 00255 042146Z

WHICH WOULD BRING ABOUT: (A) SHUTDOWN OF GAS PROCESSING  
PLANTS; (B) LOSSES OF OIL, GAS LIQUIDS, AND SULPHUR  
PRODUCTION AND/OR FLARING OF GAS; AND (C) INSTALLATION  
BY PRODUCERS OF EXPENSIVE NEW PROCESSING FACILITIES TO  
BRING GAS UP TO QUALITY SPECIFICATIONS. GAS PRODUCERS  
HAVE UNTIL MAY 9 TO DECIDE ON ACCEPTANCE OF TCPL  
PRORATIONING PROPOSALS, AND TRANSCANADA PLANS TO ADVISE

SUPPLIERS BY MAY 16 IF PRORATIONING SCHEME IS TO BE IMPLEMENTED.

3. COMMENT: TRANSCANADA PRORATIONING PLAN PRESENTS MANY PRODUCERS WITH DIFFICULT DILEMMA. INTEREST ON MONEY BORROWED BY TRANSCANADA FOR TAKE OR PAY COMMITMENTS BECOMES PART OF COST OF SERVICE, AN EXPENSE ULTIMATELY BORNE BY PRODUCERS, AND WHILE TAKE OR PAY ARRANGEMENTS MAINTAIN PRODUCERS CASH FLOW, SUCH PAYMENTS ARE TREATED AS DEFERRED INCOME ON WHICH ROYALTIES AND TAXES MUST BE PAID AT SOME FUTURE PERIOD. MOST PRODUCERS APPEAR TO BELIEVE THAT TRANSCANADA S PRORATIONING PROPOSALS ARE BETTER ALTERNATIVE THAN GOVERNMENT DIRECTED ALLOCATION OF AVAILABLE GAS SUPPLIES, BUT THERE IS CONSIDERABLE RESENTMENT OVER TCPL S BAD PLANNING. ALBERTA GOVERNMENT HAS CLEARLY INDICATED THAT IT WISHES TO AVOID RESPONSIBILITY FOR DISTRIBUTING AVAILABLE GAS MARKET AMONG PRODUCERS, AND WE BELIEVE THAT TCPL PRORATING PLAN WILL BE RELUCTANTLY ADOPTED IN NO SMALL MEASURE BECAUSE PRODUCERS ARE CONCERNED ABOUT THEIR FUTURE ABILITY TO SELL MORE GAS TO TRANSCANADA SYSTEM. AS SEEN FROM HERE, TRANSCANADA S PRORATIONING PLANS PUT IT FURTHER INTO THE INDUSTRY AND ALBERTA GOVERNMENT DOGHOUSE AND INCREASE THE PRESSURES FOR PREBUILDING THE SOUTHERN LEG OF ALASKAN HIGHWAY GAS PIPELINE. ALBERTA AND SOUTHERN IS ALSO TAKING STEPS UNDER ITS CONTRACTS

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PAGE 03 CALGAR 00255 042146Z

TO REDUCE ALBERTA GAS DELIVERIES BY ANOTHER 50 BCF ANNUALLY.  
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## Message Attributes

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**Capture Date:** 01 jan 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** INDUSTRY, AGREEMENT, PETROLEUM  
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**Copy:** SINGLE  
**Draft Date:** 04 may 1978  
**Decaption Date:** 01 jan 1960  
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**Disposition Approved on Date:**  
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**Disposition Comment:**  
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**Executive Order:** N/A  
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**Status:** NATIVE  
**Subject:** TRANSCANADA SEEKS INDUSTRY AGREEMENT ON GAS PRORATIONING  
**TAGS:** ENRG, CA, TRANSCANADA  
**To:** STATE  
**Type:** TE  
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